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FOOD FAIR STORES, INC.
ANNUAL REPORT 1973

Pantry Pride
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CONTAINS NO PHOSPHORUS
PAREVE
Pantry Pride

To Our Shareholders

We are pleased to report that sales topped the $2 billion mark in fiscal 1973, continuing the Company's unbroken record of year-to-year sales gains. Volume for the 52 weeks rose 5.6% to $2,092,127,000 from $1,980,458,000 the year before.

Profit improvement was realized in the aftermath of the costly supermarket price war which erupted in the second half of fiscal 1972 and carried over into fiscal 1973. However, operating income for the full year of 1973 trailed fiscal 1972.

Operating earnings were $6,162,000, or 80 cents a share, compared with $7,002,000, or 91 cents a share, the preceding year.

The Company incurred extraordinary charges related to the discontinuation of supermarket operations on the West Coast in excess of the provision for future loss taken in fiscal 1972. In fiscal 1973, additional charges for disposal of assets, operating losses and the continuing lease obligations totalled $4,031,000, or 53 cents a share. This completely writes off all charges related to termination of these operations.

Net income, after extraordinary charges, amounted to $2,131,000, or 27 cents a share, in fiscal 1973. In the preceding year, there was a net loss of $1,398,000, equal to 20 cents a share, after deducting charges incurred and anticipated for discontinued operations.

Fiscal 1973 earnings were achieved despite continued strong competitive pressures and government controls which severely restricted our ability to pass through higher costs.

The Company was especially hard hit in the fourth quarter by the general price freeze. In order to meet consumer needs, certain items, particularly meat, were sold at price levels frozen at, and below, cost. To minimize losses, our meat packing plant in Elizabeth, N.J., caught between rising costs for live cattle and controlled prices for processed beef, was earlier forced to cease operation. Expenses were further increased by higher interest costs. In addition, governmental agencies approved certain retroactive pay increases to employes well above the guidelines and in excess of cash reserves set aside to cover them. These factors, along with year-end adjustments, were mainly responsible for the disappointing fourth quarter results.

Nonetheless, we believe the year, overall, was one of sound growth in building for the future, and we are encouraged by the preliminary estimates of results achieved thus far in the 1974 first fiscal quarter which began July 29, 1973.

Sales growth is benefiting substantially from the success of our discount food merchandising program. Consumer response to our program of converting conventional supermarkets to discounting has been gratifying. Today, 90 per cent of our supermarkets are of the discount type, operating under the trade name of Pantry Pride or Food Fair Quality/Discount.

Discount markets generate substantially higher sales per store than conventional supermarkets. As a result, total sales continue to reach new high levels, even though there were in operation at year end 481 supermarkets compared with a high of 571 four years ago. During the fiscal year, 19 new supermarkets were opened.

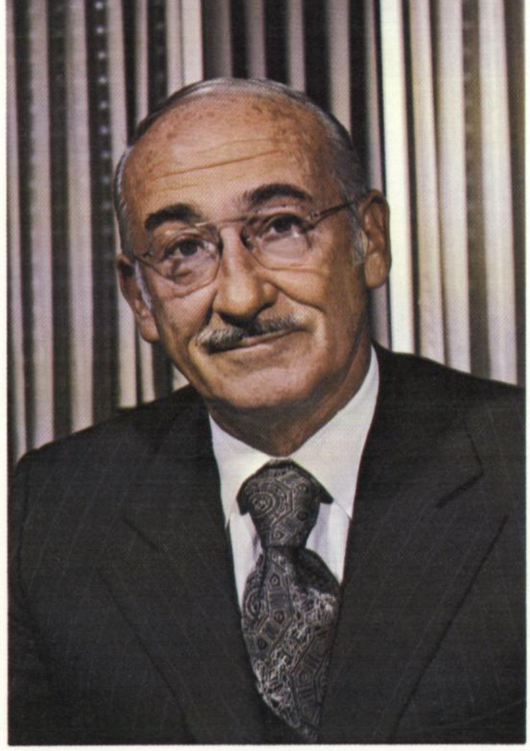
The J. M. Fields discount department store division established new sales records as it increased its scope of operations within its 11-state marketing area. This growth was achieved in the face of a proliferation of discount department stores and increasingly intense price competition. Six new department stores were opened during the year, bringing to 84 the number in operation at fiscal year end.

While earnings improved after the supermarket price war, the Directors felt it prudent to continue the Company's policy of conserving cash to strengthen its competitive position. Accordingly, in March 1973, the Directors announced their intention to continue the annual cash dividend of 20 cents a share which had been adopted the previous year. Action was reserved on additional stock dividends. A 2% stock dividend had been paid January 30, 1973.

The Company's financial position was significantly improved last year by the repayment of substantially all current bank debt. This was accomplished in part through the raising of $20 million of medium-term debt, and through the creation of a wholly-owned finance company to finance J. M. Fields receivables. Our ratio of current assets to current liabilities increased from 1.7 to 1.0 in 1972 to 1.9 to 1.0.

In June 1973, the Company announced plans to purchase up to 100,000 shares of its common stock over a period of time for use in a proposed employe stock

Jack Friedland



Myer B. Marcus

purchase program. To date, 13,249 shares have been acquired for this purpose.

Common stock outstanding at July 28, 1973, numbered 7,554,078 shares, compared with 7,408,214 shares the year before. This increase resulted principally from the 2% stock dividend paid January 30, 1973.

At the annual meeting on November 21, 1972, Louis Stein requested his name not be slated for re-election to the post of chairman of the board. Mr. Stein, whose service with the Company began in 1929, continues as a director and chairman of the finance committee. Mr. Stein was president from 1953 to 1966 when he was named chairman and chief executive officer. He was succeeded as chief executive officer in 1971 by Jack Friedland.

Myer B. Marcus, vice chairman, was elected chairman. A pioneer in the development of supermarketing, Mr. Marcus has been with the Company 44 years. He served as executive vice president from 1951 until 1966 when he was named vice chairman.

Two new directors, both veteran management employes, were elected to the board in August 1973. They are corporate vice president Jacob I. Gottlieb, president of J. M. Fields, and Frank N. James, divisional vice president for supermarket operations in the Jacksonville, Florida, area. In addition, Mr. James was elected a corporate vice president and assistant to the president.

Vice President Herman R. Silver, director of meat operations, and Vice President David T. Friedland, director of store operations, retired during the past year. Each served the Company for some four decades.

In addition, Vice President Seymour G. Mandell, director of produce operations, has resigned after 15 years of service.

To these men, we express our appreciation and thanks for their valuable contributions to the growth of the Company and to the high standards of service they set.

In recent weeks, Amterre Development Inc, the real estate development company in which Food Fair holds a 40% common stock interest, announced that it had entered into preliminary discussions for the sale of that company to private investors. Discussions presently relate to a price in the range of $5.00 to $5.50 per Amterre common share. No agreement has yet been reached with the prospective purchasers and substantial open issues remain to be resolved as to the price and other matters. The Company has given the prospective purchasers an option, expiring December 2, 1973, to acquire all Amterre common and preferred shares owned by it as part of such transaction. Amterre has approximately 8.3 million common shares outstanding. Shareholders will be kept apprised of developments.

In the current fiscal year, new store construction will be concentrated in selected growth areas. Major emphasis will be placed, however, on maximizing the sales and profits of our existing supermarkets and discount department stores. A major share of the capital budget will be expended for physical improvements to these retail units and to the installation of new equipment and fixtures.

With estimates of favorable results indicated thus far in the first quarter of fiscal 1974 and with accelerating sales and a tight rein on costs, we believe the year will be one of substantial, profitable growth.

In closing, we wish to express our thanks to our shareholders for their confidence and our appreciation to our millions of customers for their patronage and to our 30,000 employes whose contributions are so vital to the Company's success.

Sincerely,

Myer B Marcus　　Jack Friedland

Myer B. Marcus
Chairman

Jack Friedland
President

October 26, 1973

Financial Highlights

	52 Weeks Ended July 28, 1973	52 Weeks Ended July 29, 1972
Sales	**$2,092,127,000**	$1,980,458,000
Net Income (Loss):		
Continuing Operations	**$ 6,162,000**	$ 7,002,000
Discontinued Operations		(5,451,000)
Income Before Extraordinary Items	**6,162,000**	1,551,000
Provision for Losses Relating to Discontinued Operations	**(4,031,000)**	(2,949,000)
Net Income (Loss)	**$ 2,131,000**	($ 1,398,000)
Income (Loss) Per Share of Common Stock (a):		
Continuing Operations	**$ .80**	$ .91
Discontinued Operations		($ .72)
Income Before Extraordinary Items	**$ .80**	$ .19
Extraordinary Items	**($ .53)**	($ .39)
Net Income (Loss)	**$ .27**	($ .20)
Cash Dividends	**$ 1,608,000**	$ 4,113,000
Earnings Retained	**$ 523,000**	($ 5,511,000)
Current Assets	**$ 258,306,000**	$ 273,769,000
Current Liabilities	**$ 139,308,000**	$ 162,051,000
Shareholders' Equity	**$ 134,861,000**	$ 134,506,000

(a) Retroactive effect has been given to the 2% common stock dividend issued in 1973.

Supermarkets

In fiscal 1973, nineteen new supermarkets were opened and 18 conventional units were converted to discounting operations. Fifty units were closed, including 32 in California and Nevada, where our operations have been discontinued. We ended the fiscal year with 481 supermarkets.

The new stores are all in the 30,000 to 35,000 square-foot range and have proven their ability to generate annual sales as great as $8 million or more. Eleven new supermarkets of this type are planned for the current year.

The conversion of conventional supermarkets to discounting, which has been continuing for the last six years, is almost complete, except for a small number of stores, largely in south Florida.

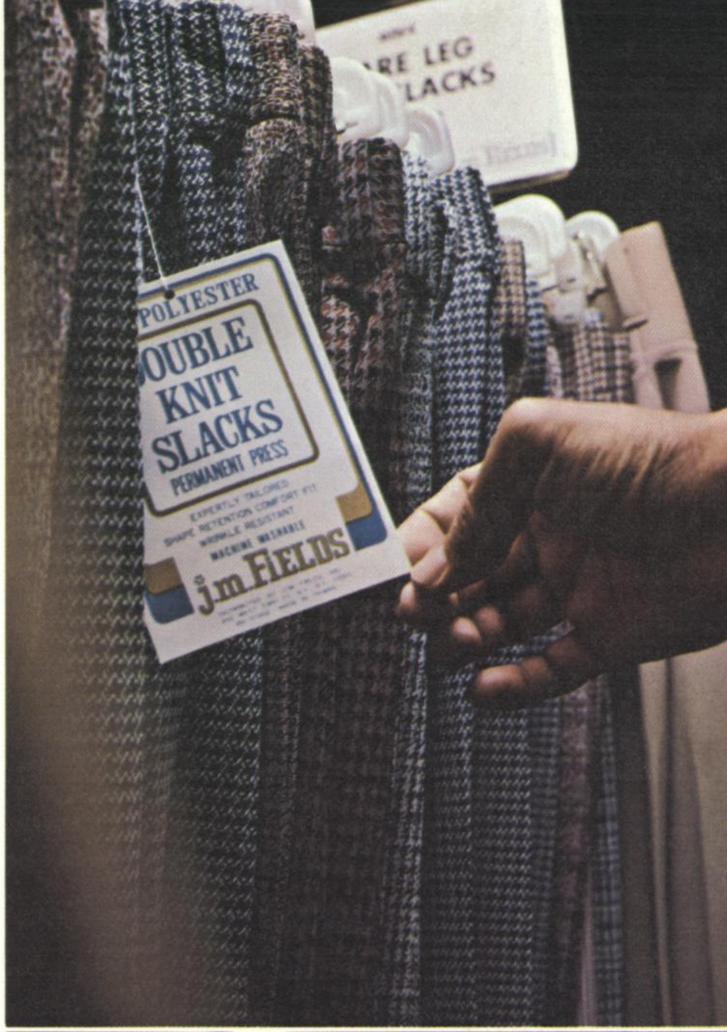
While we continue to maintain our leadership position in food discounting, we have also undertaken a variety of consumer programs to aid shoppers in stretching their food dollars. These include the preparation by our home economics department of low-cost, nutritious recipes, meal plans and basic information on how to shop for food wisely.

"Pantry Planners," distributed in many of our supermarkets, advise shoppers of the following week's advertised specials and carry useful food buying tips.

Consumer advisory boards are also being established in our major marketing areas. They are made up of a cross-section of our shoppers who meet with store operations management to discuss their supermarket experiences and offer suggestions. It is hoped that this dialogue will help our stores be even more responsive to consumer needs.


GET READY FOR FALL
JACKET
SHIRT

Discount Department Stores



Six J. M. Fields discount department stores were opened in the fiscal year and one unit was closed bringing to 84 the number serving shoppers in 11 states along the eastern seaboard from New Hampshire to Florida. In addition, one unit was enlarged.

Three of the new stores are in Florida—Pensacola, Orlando and Pompano; and the others in Virginia Beach, Va., Burlington, N.J., and Philadelphia.

They are 100,000 square-foot, one-level self-service with central checkouts.

During the year special emphasis has been placed on improving the attractiveness and acceptance of the stores' apparel lines. Sizing, style presentations and fixturing improvements have been instituted to enhance soft goods sales for the economy-minded fashion customer.

The addition of new departments is constantly evaluated and in the last year the Company entered into the "do-it-yourself" field with expanded lines of handyman tools and supply items.

Having added 30 new department stores in the last five years, the major emphasis in the current fiscal year will be on increasing the sales and profits of existing units. Three new stores have been scheduled, one of which has already opened in Portsmouth, Virginia.

Canned soft drinks coming off
production line at Company's modern,
automated beverage plant in Philadelphia.

Statistical Summary

Food Fair Stores, Inc. and Subsidiaries

(all dollar figures are in thousands, except per share amounts)	fiscal year (a) 1973	1972	1971	1970	1969(b)
Sales	$2,092,127	$1,980,458	$1,805,855	$1,649,790	$1,458,072
Net income (loss):					
Continuing operations	$ 6,162	$ 7,002	$ 13,916	$ 12,013	$ 11,650
Discontinued operations		(5,451)	(3,066)	(1,213)	(63)
Income before extraordinary items	$ 6,162	$ 1,551	$ 10,850	$ 10,800	$ 11,587
Income per share of common stock before extraordinary item (c)	$ .80	$ .19	$ 1.42	$ 1.42	$ 1.53
Extraordinary items:					
Provision for losses relating to discontinued operations	($ 4,031)	($ 2,949)			
Tax benefit arising from net operating loss carryforward			$ 549	$ 167	$ 680
Net income (loss)	$ 2,131	($ 1,398)	$ 11,399	$ 10,967	$ 12,267
Net income (loss) per share of common stock (c)	$ .27	($ .20)	$ 1.49	$ 1.44	$ 1.62
Cash dividends	$ 1,608	$ 4,113	$ 6,658	$ 6,645	$ 6,602
Earnings retained	$ 523	($ 5,511)	$ 4,741	$ 4,322	$ 5,665
Depreciation	$ 17,125	$ 17,310	$ 15,814	$ 14,167	$ 12,761
Current assets	$ 258,306	$ 273,769	$ 260,470	$ 238,805	$ 210,237
Current liabilities	$ 139,308	$ 162,051	$ 131,708	$ 134,203	$ 112,504
Shareholders' equity	$ 134,861	$ 134,506	$ 140,037	$ 135,405	$ 126,681

(a) 1969 fiscal year ended April 30; 1970, 1971, 1972 and 1973 fiscal year ended July 31.
(b) 53 weeks.
(c) Retroactive effect has been given to the 2% common stock dividends issued in 1973 and 1972.

Consolidated Statement of

Financial Condition

Food Fair Stores, Inc. and Subsidiaries

July 28, 1973 and July 29, 1972

Assets	**1973**	1972
Current assets:		
Cash	**$ 24,168,000**	$ 16,314,000
Marketable securities (Note 1)	**454,000**	467,000
Accounts receivable, net of allowance for doubtful accounts, $1,560,000, 1973; $1,137,000, 1972 (Notes 1 and 4)	**20,462,000**	68,598,000
Inventories (Note 1)	**199,768,000**	171,875,000
Prepaid expenses	**9,428,000**	9,757,000
Real estate in the process of development and sale, net of payments received on account, $7,900,000		573,000
Advance to Fields Credit Corp. (Note 4)	**4,026,000**	
Income tax refunds receivable		6,185,000
Total current assets	**258,306,000**	273,769,000
Investments (Notes 1, 4 and 5):		
Fields Credit Corp.	**6,022,000**	
Amterre Development Inc	**9,172,000**	8,915,000
Other subsidiaries	**4,337,000**	3,768,000
Miscellaneous	**1,299,000**	1,933,000
	20,830,000	14,616,000
Property, plant and equipment (Note 1):		
Land	**11,520,000**	11,365,000
Buildings and improvements	**55,169,000**	52,316,000
Fixtures and equipment	**139,154,000**	138,571,000
	205,843,000	202,252,000
Less accumulated depreciation	**86,280,000**	81,146,000
	119,563,000	121,106,000
Funds held for retirement of bonds (Note 6)	**6,898,000**	
Other assets (Note 1):		
Prepaid expenses, not current	**10,911,000**	8,942,000
Miscellaneous	**3,912,000**	4,428,000
	14,823,000	13,370,000
	$420,420,000	$422,861,000

Liabilities and Shareholders' Equity

	1973	1972
Current Liabilities:		
Notes payable	**$ 8,690,000**	$ 39,804,000
Current portion of long-term debt (Note 7)	**3,699,000**	4,338,000
Accounts payable	**91,804,000**	76,844,000
Accrued salaries and other expenses	**34,764,000**	35,538,000
Income taxes (Notes 1 and 11)	**351,000**	5,527,000
Total current liabilities	**139,308,000**	162,051,000
Other liabilities:		
Long-term debt, net of current portion (Note 7)	**129,962,000**	116,521,000
Liability for redemption of trading stamps, net of current portion included in accrued expenses	**353,000**	975,000
Lease obligations for closed stores (Note 3)	**1,917,000**	
Deferred income tax (Notes 1 and 11)	**13,454,000**	8,201,000
Minority interest in subsidiaries	**565,000**	607,000
	146,251,000	126,304,000
Commitments and contingencies (Notes 11 and 13)		
Shareholders' equity:		
Preferred stock (Note 8)	**2,578,000**	2,805,000
Common stock (Notes 1 and 9)	**7,554,000**	7,408,000
Capital in excess of par (Note 10)	**50,939,000**	49,507,000
Retained earnings (Note 7)	**73,790,000**	74,786,000
	134,861,000	134,506,000
	$420,420,000	$422,861,000

See notes to consolidated financial statements.

Consolidated Statement of

Income

Food Fair Stores, Inc. and Subsidiaries

Fifty-two weeks ended July 28, 1973 and July 29, 1972

	1973	1972
Income:		
Sales	**$2,092,127,000**	$1,980,458,000
Equity in earnings of unconsolidated subsidiaries	**778,000**	872,000
Other	**1,828,000**	1,373,000
	2,094,733,000	1,982,703,000
Costs and expenses:		
Cost of sales	**1,699,929,000**	1,611,094,000
Operating, general and administrative expenses	**374,057,000**	352,165,000
Interest	**12,645,000**	8,774,000
	2,086,631,000	1,972,003,000
Income before income taxes	**8,102,000**	10,700,000
Income taxes (Note 11)	**1,940,000**	3,698,000
Income from continuing operations	**6,162,000**	7,002,000
Loss from discontinued operations (Note 3)		5,451,000
Income before extraordinary items	**6,162,000**	1,551,000
Extraordinary items (Note 3)	**(4,031,000)**	(2,949,000)
Net income (loss)	**$ 2,131,000**	($ 1,398,000)
Income (loss) per share of common stock (Note 1):		
Continuing operations	**$ .80**	$ .91
Discontinued operations		(.72)
Income before extraordinary items	**.80**	.19
Extraordinary items	**(.53)**	(.39)
Net income (loss)	**$ .27**	($ .20)

Consolidated Statement of

Retained Earnings

Food Fair Stores, Inc. and Subsidiaries

Fifty-two weeks ended July 28, 1973 and July 29, 1972

	1973	1972
Balance, beginning of year	**$ 74,786,000**	$ 82,513,000
Net income (loss) for the fifty-two weeks	**2,131,000**	(1,398,000)
	76,917,000	81,115,000
Deduct dividends:		
Cash:		
Preferred stock	**110,000**	118,000
Common stock	**1,498,000**	3,995,000
2% common stock dividend	**1,519,000**	2,216,000
	3,127,000	6,329,000
Balance, end of year	**$ 73,790,000**	$ 74,786,000

See notes to consolidated financial statements.

Consolidated Statement of

Changes in Financial Position

Food Fair Stores, Inc. and Subsidiaries

Fifty-two weeks ended July 28, 1973 and July 29, 1972

	1973	1972
Source of funds:		
Income before extraordinary items	**$ 6,162,000**	$ 1,551,000
Add (deduct) items not affecting working capital:		
Depreciation	**17,125,000**	17,310,000
Amortization of deferred charges	**206,000**	270,000
Deferred income taxes	**575,000**	(1,794,000)
Undistributed earnings of unconsolidated subsidiaries	**(778,000)**	(872,000)
Working capital provided from operations, exclusive of extraordinary items	**23,290,000**	16,465,000
Extraordinary items	**(4,031,000)**	(2,949,000)
Disposition of property, plant and equipment	**2,613,000**	12,206,000
Increase in long-term debt	**41,276,000**	2,306,000
Reclassification of current income taxes to deferred	**4,678,000**	
	67,826,000	28,028,000
Application of funds:		
Purchase of property, plant and equipment	**18,195,000**	31,323,000
Decrease in long-term debt	**27,835,000**	7,313,000
Payment of cash dividends	**1,608,000**	4,113,000
Funds held for retirement of bonds	**6,898,000**	
Increase in investments	**5,436,000**	
Other changes	**574,000**	2,323,000
	60,546,000	45,072,000
Increase (decrease) in working capital	**$ 7,280,000**	($17,044,000)
Summary of net changes in working capital:		
Increase (decrease) in current assets:		
Cash	**$ 7,854,000**	$ 281,000
Marketable securities	**(13,000)**	(20,000)
Accounts receivable	**(48,136,000)**	10,570,000
Inventories	**27,893,000**	(1,248,000)
Prepaid expenses	**(329,000)**	(286,000)
Real estate in the process of development and sale, net	**(573,000)**	(2,183,000)
Advance to Fields Credit Corp.	**4,026,000**	
Income tax refunds receivable	**(6,185,000)**	6,185,000
	(15,463,000)	13,299,000
Increase (decrease) in current liabilities:		
Notes payable	**(31,114,000)**	23,669,000
Current portion of long-term debt	**(639,000)**	1,182,000
Accounts payable	**14,960,000**	1,346,000
Accrued salaries and other expenses	**(774,000)**	3,695,000
Income taxes	**(5,176,000)**	451,000
	(22,743,000)	30,343,000
Increase (decrease) in working capital	**$ 7,280,000**	($17,044,000)

See notes to consolidated financial statements.

Notes to Consolidated Financial Statements

Fifty-two weeks ended July 28, 1973

1. Summary of significant accounting policies:

Basis of consolidation: The consolidated financial statements include the accounts of the Company and its wholly and majority owned subsidiaries, except the life insurance and credit companies.

Investments in the life insurance and credit companies, 50% owned companies and Amterre Development Inc are stated at the Company's equity in net assets.

Marketable securities: Marketable securities are stated at cost.

Inventories: Inventories (except merchandise in stores) and store supplies are stated at cost (first-in, first-out or average), which is market or lower. The retail method of accounting is used with respect to inventories of merchandise in stores.

Investments, miscellaneous: Miscellaneous investments are stated at cost.

Property, plant and equipment: Property, plant and equipment are stated at cost. Depreciation for financial reporting purposes is computed on the straight line method over the estimated useful lives of the assets. For income tax reporting purposes, depreciation is computed by accelerated methods.

Provisions for credit losses and charge off policy: Provision for losses on customers' accounts arising from credit sales is made to maintain adequate reserves to cover anticipated losses. Customers' accounts are charged off against the reserve if no payment is received for a stipulated period, or if accounts become uncollectable for other reasons.

Income taxes: Income taxes are provided on all transactions included in the determination of financial income. Where such transactions are included in the determination of taxable income in a different year, such as the acceleration of depreciation and the deferral of gross profit on installment sales, the resulting tax benefits are deferred. Current investment tax credits are being taken into income as the related assets are placed in service.

Other: Debt expense is being amortized over the term of the debentures. If debentures are retired prior to maturity, the unamortized discount and expense is charged to operations.

The excess of cost over net assets of a business acquired in 1971 is being amortized over forty years.

Pre-opening expenses of J. M. Fields department stores and costs of converting food stores to discount operations are deferred and charged to operations over a three-year period.

Pension plans: Pension expense includes normal cost and amortization of prior service costs over a forty year period. The Company's policy is to fund pension costs accrued.

Income per share of common stock: Income per share of common stock is based on the weighted average number of shares outstanding during the years. Options, warrants and convertible subordinated notes have no dilutive effect. All per share amounts have been adjusted for the 2% common stock dividend issued in 1973.

2. Reclassification: The financial statements for fiscal 1972 have been reclassified to conform with the presentation for 1973.

3. Discontinued operations: In fiscal 1972, the Company discontinued its West Coast supermarket operations and certain processing operations. The related operating losses in 1972 are included in loss from discontinued operations, summarized as follows:

Sales and other income	$104,251,000
Costs and expenses	111,816,000
	(7,565,000)
Income tax reductions	2,114,000
Discontinued operations, net	($ 5,451,000)

In fiscal 1972, the Company provided $2,949,000, net of income tax reductions of $2,722,000, for losses expected to be incurred in connection with the disposal of assets and the termination of the West Coast operations. In fiscal 1973, the Company incurred or has provided $4,031,000, net of income tax reduction of $898,000, for additional losses.

4. Investment, Fields Credit Corp.: Fields Credit Corp. commenced operations on July 25, 1973 and purchased the revolving credit and installment sales accounts of J. M. Fields, Inc. subject to the related unearned income and the allowance for doubtful accounts. The accounts transferred and subsequently acquired by Fields Credit Corp. are with recourse to J. M. Fields, Inc. and Food Fair Stores, Inc. Pre-tax earnings of $44,525, to July 28, 1973, representing the excess of interest earned over interest expense, has been included in the consolidated statement of income as a reduction of interest expense. The balance sheet of Fields Credit Corp. at July 28, 1973, is as follows:

4. Investment, Fields Credit Corp. (Continued):

Assets	
Customers' receivables purchased from J. M. Fields, Inc., net of unearned income of $1,194,628 and provision for doubtful accounts of $473,730.	$31,066,724
Liabilities	
Notes payable, banks	$21,000,000
Advances from Food Fair Stores, Inc.	4,025,699
Accrued expenses	18,773
Equity of Food Fair Stores, Inc.	6,022,252
	$31,066,724

5. Investment, Amterre Development Inc: The Company owns all of the preferred stock and 40% of the common stock of Amterre Development Inc. At July 28, 1973, the value of the preferred stock was $2,000,000 and the market value of the common stock was $6,666,667, based on a quoted bid price of $2 per share.

Net earnings of Amterre Development Inc included in the consolidated statement of income were $235,000 ($.03 per share) in 1973 and $520,000 ($.07 per share) in 1972.

Condensed financial statements of Amterre Development Inc and subsidiaries are as follows:

Consolidated balance sheet	(000 omitted, except per share amounts) December 31, 1972	1971
Assets		
Investment in property and equipment, at cost, net of accumulated depreciation	$234,451	$218,993
Other	9,911	11,269
	$244,362	$230,262
Liabilities		
Notes, mortgages and debentures payable	$201,617	$162,198
Construction loans payable	7,431	33,953
Other	15,382	14,874
	224,430	211,025
Shareholders' equity	19,932	19,237
	$244,362	$230,262

Consolidated statement of income	Year ended December 31, 1972	1971
Income	$ 30,418	$ 23,671
Expenses, net	29,510	21,495
Income before income taxes	908	2,176
Income taxes	154	659
Net income	$ 754	$ 1,517
Earnings per common share and common share equivalent	$.08	$.17

6. Funds held for retirement of bonds: This amount represents certificates of deposit held by the trustee for the redemption of the 3⅜% sinking fund debentures.

7. Long-term debt:

Notes:	Rate	Amount	Maturity
Banks	6% to ¾% over prime	$ 31,427,000	1973-1980
Other	5-8.75%	7,866,000	1973-1984
Mortgages	5-10%	11,675,000	1974-1998
Sinking fund debentures	3.375%	6,566,000	1974
Convertible subordinated notes	4%	1,920,000	1977
Subordinated debentures	4%	14,207,000	1979
Subordinated notes	8.5%	25,000,000	1984
Sinking fund debentures	8.375%	35,000,000	1996
		133,661,000	
Less current portion		3,699,000	
		$129,962,000	

Sinking fund debentures (3.375%) require semi-annual sinking fund payments of $500,000 through March 1, 1974. The sinking fund requirements for the year ending August 3, 1974, have been anticipated.

Convertible subordinated notes (4%) are convertible into common stock at $25 per share through May 12, 1977. These notes require annual principal payments of $480,000.

Subordinated debentures (4%) require annual sinking fund payments of $967,000. The sinking fund requirements for the year ending August 3, 1974 have been anticipated.

Subordinated notes (8.5%) require annual payments of $2,000,000 beginning December 1, 1974.

Sinking fund debentures (8.375%) require annual sinking fund payments of $1,750,000 commencing January 15, 1977.

The indentures covering the issuance of the debentures and notes described above contain restrictions as to the payment of cash dividends and the redemption of shares of stock of the Company. The maximum amount of retained earnings so restricted at July 28, 1973 was $64,480,000.

8. Preferred stock: Preferred stock is $4.20 cumulative, $15 par (stated at liquidating value of $100 per share); 108,190 shares are authorized, of which 25,778 are issued and outstanding. The Company is obligated to set aside $120,000 semi-annually as a sinking fund for the redemption of the preferred stock, which may be called for this purpose at $100 per share plus accrued dividends.

9. Common stock: Common stock is $1 par; 10,000,000 shares are authorized, of which 7,557,378 are issued, 3,300 are held in the Company's treasury and 7,554,078 are outstanding.

At July 28, 1973, options were outstanding to purchase 25,229 shares of common stock at $21.15 per share expiring April 16, 1974.

At July 28, 1973, warrants to purchase 400,000 shares of common stock were outstanding. These warrants are exercisable at $23.05 per share and expire December 17, 1979.

10. Capital in excess of par: The increase in capital in excess of par during the year ended July 28, 1973, is comprised of the following:

Excess of stated value over cost of cumulative preferred stock retired	$ 72,000
Excess of market value over par of 148,144 shares of common stock issued in connection with 2% stock dividend	1,360,000
	$1,432,000

11. Income taxes: Income taxes are comprised of the following:

	1973	1972
Federal:		
Current		$ 84,000
Deferred	2,780,000	3,042,000
Investment tax credit	(1,307,000)	(10,000)
State	351,000	582,000
	$1,824,000	$3,698,000

Net income tax expense charged to operations in fiscal 1973 was $926,000 ($1,824,000 charged to income from continuing operations, $898,000 credited to the extraordinary item). The financial income subject to tax includes approximately $1,800,000 of income taxable at the capital gains rate. An investment tax credit of $510,000 was applied in reduction of the Federal income tax provision.

The Company and its subsidiaries file a consolidated Federal income tax return. Net operating loss and investment tax credit carryforwards of approximately $4,600,000 and $3,700,000, respectively, are available for fiscal years ending after July 28, 1973. The net operating loss carryforwards expire through 1977; the investment tax credits expire through 1980.

The Federal income tax returns of the Company and certain subsidiaries have been examined by Internal Revenue Service for the fiscal years 1964 through 1968. The Service has proposed adjustments which would result in additional taxes of approximately $10,500,000. The proposed adjustments are being contested by the Company. In the opinion of management, based upon the advice of tax counsel, the final net additional tax will be substantially less than the amounts proposed.

12. Pension plans: The Company and its subsidiaries have several non-contributory pension plans covering certain hourly and salaried employees. Pension expense for the years ended July 28, 1973 and July 29, 1972 was $1,191,000 and $1,255,000 respectively. The total assets of the plans exceeded the actuarially computed value of vested benefits.

13. Commitments and contingencies: The Company is obligated under lease agreements for real property and equipment for annual rentals of $34,210,000, plus in some instances certain taxes, insurance and other expenses. Realty lease terms generally range to twenty-five years with options of renewal for additional periods. Equipment leases expire at various dates from 1980 to 1983. With respect to leases for real property, annual lease obligations to real estate affiliates aggregate $13,382,000.

The Company and Amterre Development Inc have been named as defendants in a complaint issued by the Federal Trade Commission alleging that Amterre is a "subsidiary" and is controlled by the Company, and that the Company and Amterre, through restrictive provisions in shopping center leases, have entered into agreements which tend to fix prices and restrain trade. The Company and Amterre have filed answers which deny the material allegations of the complaint. The complaint does not seek money damages and, in the opinion of management, if the relief sought by the Federal Trade Commission is granted, such result will not have a material adverse effect upon the financial position of the Company.

The Company is contingently liable at July 28, 1973 for accounts receivable aggregating $7,193,000 sold to a bank with recourse.

14. Subsequent event: On October 5, 1973, Amterre Development Inc announced that it had entered into preliminary discussions for the sale of Amterre in a cash transaction at a price equivalent to $5.00 to $5.50 per share of common stock. The sale would be conditioned, among other things, upon a prior agreement of Food Fair Stores, Inc. Food Fair Stores, Inc. has given the prospective purchasers an option, expiring December 2, 1973, to acquire all Amterre common and preferred shares owned by it as part of such transaction.

The Board of Directors and Shareholders
Food Fair Stores, Inc.

We have examined the consolidated balance sheet of Food Fair Stores, Inc. and Subsidiaries as at July 28, 1973 and the related consolidated statements of income (loss), retained earnings and changes in financial position for the fifty-two weeks then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, subject to the outcome of the tax matter described in Note 11, the financial statements referred to above present fairly the financial position of Food Fair Stores, Inc. and Subsidiaries at July 28, 1973, the results of their operations and changes in financial position for the fifty-two weeks then ended, in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Laventhol Krekstein Horwath & Horwath

Philadelphia, Pa.
October 23, 1973

Directors

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Limited Partner
Blyth Eastman Dillon & Co.

William P. Davis, III
Vice Chairman
The First Pennsylvania Banking & Trust Co.

George Friedland
Former Vice Chairman and President

Harold Friedland
Vice President

Jack Friedland
President

Samuel Friedland
Chairman of the Executive Committee

Jacob I. Gottlieb
Vice President

Frank N. James
Vice President

Hess Kline
Former Vice President and Treasurer

Samuel P. Mandell
Vice President

Myer B. Marcus
Chairman of the Board

Arthur S. Rosenberg
Senior Vice President

Herman R. Silver
Former Vice President

Louis Stein
Chairman of the Finance Committee

W. Paul Stillman
Chairman
The First National State Bank of New Jersey

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Chairman of the Board

Jack Friedland
President
Chief Executive Officer

Arthur S. Rosenberg
Senior Vice President

J. A. Berger
Vice President
Director of Manufacturing & Food Processing

Harold Friedland
Vice President
Director of Buying and Merchandising

Jacob I. Gottlieb
Vice President
President, J. M. Fields, Inc.

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Assistant to the President

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Leo Dicandilo
Assistant Secretary

Samuel Forman
Assistant Secretary

Seymour I. Friedman
Assistant Secretary

Edmond O'Neill
Assistant Secretary

Leonard Stubins
Assistant Secretary

Divisional Officers

Retail Food Stores

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Baltimore Division

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Southern Division

Jack Millman
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Philadelphia Division

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Harry Haber
Treasurer

MGS Incentives Company

Harold H. Rubin
President

Executive Offices 3175 John F. Kennedy Blvd., Philadelphia, Penna. 19101
General Counsel Stein & Rosen, New York, New York
Transfer Agent Registrar & Transfer Company, New York, New York
Registrar The Chase Manhattan Bank N.A., New York, New York
Certified Public Accountants Laventhol Krekstein Horwath & Horwath, Philadelphia, Penna.

Annual Meeting The annual meeting of shareholders will be held Tuesday, November 20, 1973, at 2 P.M., local time, in the Warwick Hotel, 17th and Locust Sts., Philadelphia. Shareholders are cordially invited to attend.

FOOD FAIR STORES, INC.

3175 John F. Kennedy Blvd., Philadelphia, Penna. 19101